



Competitive Pay Level Analysis – CFO Position

December 13, 2011

Introduction

- The California Public Employees' Retirement System (CalPERS) asked McLagan to provide information about competitive salary levels for the Chief Financial Officer position.
- This report presents the results of our analysis, with our findings based on:
 - Our understanding of the roles and responsibilities of CalPERS' CFO position.
 - Our understanding of CalPERS' guidelines for establishing executive base salary ranges.
 - 2011 McLagan compensation survey data.
- Importantly, in completing this analysis:
 1. McLagan has adhered to CalPERS' existing policies relating to pay comparator groups and salary range determination.
 2. McLagan has offered additional information about an alternative approach for assessing competitive pay requirements (see Appendix 1).

2011 CFO Pay Level Analysis

McLagan's Approach

- McLagan's approach to completing this pay level analysis involved:
 1. Learning about the roles and responsibilities of the CFO's position through:
 - Discussions with CalPERS' HR team.
 - A review of the CFO's job description. As detailed in Appendix 2 and as summarized below, CalPERS' CFO position is a close match to our survey's CFO position. And, while CalPERS' CFO is responsible for other functions not specified in the survey's CFO position, we believe that: (1) other firms' CFOs are often responsible for these and/or other functions; and (2) these functions are not material enough to warrant a change or adjustment to the survey job match.

Key Responsibilities of CalPERS' CFO Position	Key Responsibilities of the Survey's CFO Position	
	Yes	No
Directs the organization's financial activities	✓	
Leads the accounting and reporting functions	✓	
Leads the cash management/treasury function	✓	
Leads the financial planning/analysis function	✓	
Provides expert consultation to the Board	✓	
Represents the System to outside agencies	✓	
Manages enterprise risk management, compliance, and privacy/protection programs		✓
Coordinates and reviews finance-related investment functions		✓

2011 CFO Pay Level Analysis

McLagan's Approach . . .

- McLagan's approach involved:
 2. Assembling 2011 survey data using CalPERS' approved comparator groups, including:
 - U.S. and Canadian public pension funds with AUM of \$75+ billion (Appendix 3)
 - Banks and insurance companies (24 firms with median AUM of \$246B).
 3. Developing competitive composite salary rates for CalPERS' CFO position. Consistent with "CalPERS' Executive Compensation Policy" this process involved:
 - Focusing on median competitive data for large banks and insurance companies.
 - Focusing on high quartile (75th percentile) data for other large public pension funds (i.e., AUM greater than \$75 billion).
 - Weighting each sector at 50% to develop median salary level. For roles in which only one sector is available, the weighting will be 100% to that sector.
- It is important to note that the Study approach described above adhered strictly with CalPERS' existing pay determination policies. In contrast, Appendix 1 contains additional thoughts from McLagan about an alternative pay determination approach.

2011 CFO Pay Level Analysis

Findings

- The proposed salary range for CalPERS' CFO position is based on the System's existing pay policies. In reviewing the proposed range, please note that:
 - The underlying market data is shown on the following page.
 - The proposed range reflects:
 - ❑ Comparator group weightings: 50% to private sector and 50% to public sector.
 - ❑ Target market positioning: median for banks and insurance companies and high quartile for public pension plans.
 - ❑ 50% range spread (i.e., minimum of 80% of midpoint; maximum of 120% of midpoint).
 - The CFO's proposed incentive range conforms with other related CalPERS' positions (e.g., General Counsel, Chief Actuary, CEO).

	Comparator Group	Comparator Group Weighting	Target Market Position	2011 Competitive Market Base Salary		
				LowQ	Median	HighQ
Base Salary	Banks & Insurance Companies	50%	Median	\$234.7	\$297.5	\$406.3
	Large Public Pension Funds	50%	HighQ	113.4	155.9	219.1
	Competitive Composite (midpoint)			\$260.0		
				Proposed Salary Range		
				Minimum	Midpoint	Maximum
	Proposed Salary Range (with a 50% spread)			\$210.0	\$260.0	\$310.0
Target Incentive	Consistent with Similar CalPERS' Executive Positions			0% to 40% of Salary, with a 27% target		

2011 CFO Pay Level Analysis

Findings . . .

Competitive Frames of Reference										
Position	Comparator Group	Low Quartile			Median			High Quartile		
		2010 T. Cash	2010 T. Comp	2011 Salary	2010 T. Cash	2010 T. Comp	2011 Salary	2010 T. Cash	2010 T. Comp	2011 Salary
PRIMARY FRAMES OF REFERENCE										
Chief Financial Officer	Banks & Insurance Companies	\$406.0	\$508.7	\$234.7	\$521.5	\$706.5	\$297.5	\$900.0	\$1,350.0	\$406.3
Chief Financial Officer	Large Public Pension Funds	109.8	109.8	113.4	149.6	149.6	155.9	284.7	378.8	219.1
Competitive Composite - Developed Using CalPERS' Policy							\$260.0			
OTHER MARKET DATA - FOR INFORMATION PURPOSES ONLY										
Survey Data										
Head of Risk Management	Banks & Insurance Companies	\$370.3	\$434.5	\$225.5	\$425.0	\$611.8	\$245.0	\$665.0	\$868.8	\$300.0
Head of Risk Management	Large Public Pension Funds	NER	NER	181.0	397.1	397.1	218.5	NER	NER	221.5
Publicly Disclosed Data for Public Pension Fund CFOs (included in summary stats above)										
Ontario Teachers Pension Plan	David McGraw				\$568.1	\$951.4	\$305.9			
CPP Investment Board	Nicholas Zelenczuk				645.0	944.7	305.9			

McLagan's Alternative Approach for Determining the CFO's Pay Range

- In developing an alternative pay range for the CFO position, McLagan followed a structured process described below.

#1. What peer groups should CalPERS use to benchmark its CFO's pay level?	
McLagan's Suggestion	Rationale/ Explanation
<p>CalPERS should consider two comparator groups:</p> <ol style="list-style-type: none"> 1. Other large and complex pension funds in the US and, to a lesser extent, Canada. 2. Private sector asset management organizations with AUM of \$100 to \$300B. 	<ul style="list-style-type: none"> ▪ CalPERS is a large and complex pension fund and its executive-level talent must have proven experience in other comparable organizations. ▪ Given that they are considered global leaders, selected Canadian funds should also be included in CalPERS' peer group. ▪ The proposed group would include investment management firms, in addition to the asset management businesses of banks and insurance companies. (CalPERS' existing peer group is ambiguous about (a) what parts of banks and insurance companies are included (b) the size of the targeted organizations). ▪ In contrast to the small number of public funds, private sector firms dominate the labor market in terms of opportunities/slots for employment.

McLagan's Alternative Approach for Determining the CFO's Pay Range

#2. How should CalPERS use the data from the two peer groups?

McLagan's Suggestion	Rationale/ Explanation
<p>CalPERS should develop a competitive composite base salary rate by averaging:</p> <ul style="list-style-type: none"> High quartile (i.e., 75th percentile) data from other pension funds. Median (i.e., 50th percentile) data from the private sector peer group, which includes asset management organizations in addition to banks and insurance companies. 	<ul style="list-style-type: none"> The proposed approach for determining base salary is consistent with CalPERS' current guidelines: <ul style="list-style-type: none"> Market data from the two peer groups are combined with a simple average (i.e., not a weighted average). Market comparisons focus on high quartile public fund data and median private sector data. The proposed private sector peer group includes asset management organizations, in addition to banks and insurance companies. By including asset management organizations, McLagan acknowledges that: <ul style="list-style-type: none"> Asset management organizations (i.e., not banks and insurance companies) are considered the leaders in investment management. Relatively few banks and insurance companies manage the breadth and complexity of assets as CalPERS.

McLagan's Alternative Approach for Determining the CFO's Pay Range

- An alternative approach for determining the CFO's proposed pay range is shown below:
 - Determine the salary range mid-point.

Competitive Frames of Reference										
Position	Comparator Group	Low Quartile			Median			High Quartile		
		2010	2010	2011	2010	2010	2011	2010	2010	2011
		T. Cash	T. Comp	Salary	T. Cash	T. Comp	Salary	T. Cash	T. Comp	Salary
PRIMARY FRAMES OF REFERENCE										
Chief Financial Officer	Private Sector Firms \$100 to \$300B AUM	\$502.3	\$608.0	\$280.0	\$656.3	\$943.0	\$320.0	\$1,265.4	\$1,755.3	\$382.1
Chief Financial Officer	Large Public Pension Funds	109.8	109.8	113.4	149.6	149.6	155.9	284.7	378.8	219.1
Competitive Composite Base Salary - Alternative Approach							\$270.0			

- Develop the salary range using a 50% range spread.

	Comparator Group	Comparator Group Weighting	Target Market Position	2011 Competitive Market Base Salary		
				LowQ	Median	HighQ
Base Salary	Private Sector Firms \$100 to \$300B AUM	50%	Median	\$280.0	\$320.0	\$382.1
	Large Public Pension Funds	50%	HighQ	113.4	155.9	219.1
	Competitive Composite (midpoint)			\$270.0		
	Proposed Salary Range (with a 50% spread)			Proposed Salary Range		
				Minimum	Midpoint	Maximum
				\$215.0	\$270.0	\$325.0
Target Incentive	Consistent with Similar CalPERS' Executive Positions			0% to 40% of Salary, with a 27% target		

CalPERS' CFO Position is Similar to McLagan's CFO Benchmark Positions

CalPERS' CFO Directs the Organization's Financial Activities

DRAFT DUTY STATEMENT
(September 14, 2011)

CHIEF FINANCIAL OFFICER
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)

Concept of the Position

Under the direction of the Chief Executive Officer, the Chief Financial Officer (CFO) promotes the sound and secure operation of all CalPERS enterprises through (1) management of the system's financial and investment accounting, financial analysis and planning, cash management, and budgeting functions, (2) management of the system's globally-focused enterprise risk management, compliance, and privacy and protection programs, and (3) coordination with and review of the system's finance-related investment functions, including asset/liability management, investment valuation policies and processes, and the selection of benchmarks for investment performance. The CFO provides briefings and expert consultation and advice in these areas to the Board of Administration and executive management and, as a member of the executive staff, participates in the development, implementation, and review of CalPERS strategic plans.

The magnitude of these responsibilities is enhanced by CalPERS being the nation's largest public retirement system (serving 3,000 public agencies and well over one million members), and having substantial autonomy for managing its 230 billion dollar investment portfolio and more than one billion dollar annual budget.

McLagan Survey**2011 Management & Administration — U.S.****Finance and Accounting****Chief Financial Officer**

No. 026-09-0100

GEO

This position is responsible for directing the organization's financial activities, typically including: treasury, accounting, tax, audit, financial planning, and financial control. Directs and coordinates activities with accounting firms and regulatory agencies concerned with the organization's financial position and financial disclosures.

Represents the firm's financial interests with shareholders, the Board of Directors, industry associations, and government regulatory and tax authorities.

CalPERS' CFO Position is Similar to McLagan's CFO Benchmark Positions

CalPERS' CFO Leads the Accounting & Reporting Functions

DRAFT DUTY STATEMENT
(September 14, 2011)

CHIEF FINANCIAL OFFICER
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)

Typical Tasks**Financial Accounting and External Financial Reporting:**

Leads the CalPERS financial accounting and external reporting functions, including preparation of annual financial statements and the development and implementation of accounting policies/procedures and internal control standards, including Risk Pool Accounting.

Owns financial systems strategy, including general ledger, payables, receivables, management reporting and budgeting systems, and leads process redesign and system implementation efforts.

Oversees CalPERS billing cycles, accounts receivable, and cash disbursement functions.

Ensures compliance with state and federal tax laws through oversight of tax-related accounting, payments, and compliance functions.

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No. 026-09-0100

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CalPERS' CFO Position is Similar to McLagan's CFO Benchmark Positions

CalPERS' CFO Leads the Cash Mgmt/Treasury Function

DRAFT DUTY STATEMENT
(September 14, 2011)

CHIEF FINANCIAL OFFICER
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)

Cash Management:

Leads CalPERS cash management efforts by monitoring and forecasting cash inflow/outflow and providing guidance on actions needed to ensure sufficient liquidity to meet benefit, vendor, and other payment demands, while maximizing the amount of funds available for investment.

Coordinates with the Chief Investment Officer and the Chief Actuary to ensure the level and liquidity of CalPERS investment assets are consistent with the system's revenue flow and liabilities, and provides recommendations for achieving this to the Board of Administration.

McLagan Survey

2011 Management & Administration — U.S.

Finance and Accounting

Chief Financial Officer

No. 026-09-0100

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CalPERS' CFO Position is Similar to McLagan's CFO Benchmark Positions

CalPERS' CFO Leads the Financial Planning/Analysis Function

DRAFT DUTY STATEMENT
(September 14, 2011)

CHIEF FINANCIAL OFFICER
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)

Financial Planning, Management Reporting, and Financial Analysis:

Initiates and provides strategic direction and review for the preparation of financial forecasts, economic reports, analyses, and reports designed to give guidance and support for executive planning, review, and decision making.

Designs and implements financial planning, reporting, and analysis functions to provide timely and comprehensive expense reporting and forecasting, identify and report expenses against relevant industry benchmarks, and assist management in identifying efficiency opportunities.

Oversees the development and administration of the CalPERS annual budget.

Reviews the establishment of investment performance benchmarks for their overall consistency and logic, and, as needed, makes recommendations to the CIO and/or Board of Administration for benchmark improvement.

Recommends and oversees benchmarks for the Investment Office performance bonus program.

McLagan Survey

2011 Management & Administration — U.S.

Finance and Accounting

Chief Financial Officer

No. 026-09-0100

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CalPERS' CFO Position is Similar to McLagan's CFO Benchmark Positions

CalPERS' CFO Provides Expert Consultation to the Board

DRAFT DUTY STATEMENT
(September 14, 2011)

CHIEF FINANCIAL OFFICER
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)

Concept of the Position

Under the direction of the Chief Executive Officer, the Chief Financial Officer (CFO) promotes the sound and secure operation of all CalPERS enterprises through (1) management of the system's financial and investment accounting, financial analysis and planning, cash management, and budgeting functions, (2) management of the system's globally-focused enterprise risk management, compliance, and privacy and protection programs, and (3) coordination with and review of the system's finance-related investment functions, including ~~asset/liability management, investment valuation policies and processes, and the selection of benchmarks for investment performance.~~ **The CFO provides briefings and expert consultation and advice in these areas to the Board of Administration** and executive management and, as a member of the executive staff, participates in the development, implementation, and review of CalPERS strategic plans.

The magnitude of these responsibilities is enhanced by CalPERS being the nation's largest public retirement system (serving 3,000 public agencies and well over one million members), and having substantial autonomy for managing its 230 billion dollar investment portfolio and more than one billion dollar annual budget.

McLagan Survey**2011 Management & Administration — U.S.****Finance and Accounting****Chief Financial Officer**

No. 026-09-0100

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Represents the firm's financial interests with shareholders, the **Board of Directors**, industry associations, and government regulatory and tax authorities.

CalPERS' CFO Position is Similar to McLagan's CFO Benchmark Positions

CalPERS' CFO Represents the Firm to Outside AgenciesDRAFT DUTY STATEMENT
(September 14, 2011)CHIEF FINANCIAL OFFICER
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)External Relationships and Executive Management:

Manages the fiscal and personnel resources of assigned units, ensuring that succession planning, diversity, performance management, core values, and other related best leadership practices occur.

As a member of the CalPERS executive staff, participates in agency-wide planning and policy making to ensure assigned programs are well coordinated with other CalPERS functions.

Provides briefings and expert consultation and advice to CalPERS executive management and the Board of Administration on all financial and enterprise risk management issues.

Acts as CalPERS official liaison with the Governor's Office, Department of Finance, and the State Controller's office on matters pertaining to financial accounting and budgeting of CalPERS operations.

Represents CalPERS to a wide variety of external parties, including the legislature, State agencies, external auditors and compliance agencies, and CalPERS stakeholders.

Serves as the central contact point for external auditors and agencies engaged in reviewing CalPERS general operations and financial reporting programs.

McLagan Survey**2011 Management & Administration — U.S.****Finance and Accounting****Chief Financial Officer**

No. 026-09-0100

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Public Sector

Comparator Group: Public Pension Funds with AUM \$75B+

Public Pension Plan	AUM (12/31/2010)
Caisse de dépôt et placement du Québec	\$147.3
Canada Pension Plan Investment Board	143.9
California State Teachers' Retirement System	146.4
Florida State Board of Administration	127.4
New York State & Local Retirement System	140.6
New York State Teachers' Retirement System	85.1
North Carolina Retirement System	75.3
Ohio Public Employees Retirement System	75.6
Ontario Teachers Pension Plan Board	101.7
Teacher Retirement System of Texas	95.7
Washington State Investment Board	79.4
State of Wisconsin Investment Board	83.7
Low Quartile	\$82.6
Median	98.7
High Quartile	141.4
California Public Employees' Retirement System	\$225.6